

Performance as at 31st August 2021

	1m	6m	1yr	3yr p.a.	5yr p.a.	Inception p.a.#
Fund ^	6.0%	17.4%	48.1%	13.2%	13.4%	13.7%
<i>Benchmark*</i>	5.0%	15.6%	29.5%	10.1%	11.0%	11.0%
Value added	1.0%	1.9%	18.6%	3.1%	2.4%	2.7%

^ Spheria Australian Smaller Companies Fund. Returns of the Fund are net of applicable fees, costs and taxes. All p.a. returns are annualised.

* Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

Inception date of the current investment strategy is 11th July 2016. The Fund was established in June 2005. Past performance is not a reliable indicator of future performance.

Commentary

The Spheria Australian Smaller Companies Fund returned 6.0% (after fees) during the month August, outperforming the ASX Small Ordinaries Accumulation Index by 1.0%.

Markets

Markets locally rose strongly over August adding yet further to the stunning recovery in the small/mid-market since the lows seen in late February 2020. Performance was relatively broad based but biased to sectors enjoying strong sentiment with significant gains seen in battery materials names, biotechs and fintechs but also solid performance in REITS, many COVID-19 re-opening plays and several under-owned names that had high short interest. Gold exposures significantly underperformed as the equities followed the gold price down after a "flash crash" early in the month on fears of U.S. Federal Reserve QE tapering but failed to rise as the gold price recovered the entirety of the loss later in the month. Iron ore exposures were also significant underperformers during the month as the benchmark for iron ore fell a further 20% during the month after rolling over from record highs in July.

Retail exposures that had traded well through COVID-19 on share of wallet gains as services spending was diverted to goods spending, were amongst the laggards as the market turned its names to those who might benefit from re-opening. Companies reporting disappointing results or outlook not directly relating to COVID-19 were unsurprisingly punished with Electro Optical Systems (EOS.ASX), Starpharma (SPL.ASX), AMA Group (AMA.ASX), Synlait (SM1.ASX), Bravura Solution Ltd (BVS.ASX), Paradigm Bio (PAR.ASX), Mesoblast (MSB.ASX) and Altium (ALU.ASX) all down more than 10% for the month.

The Fund outperformed due to an overweight to re-opening names, an underweight to gold and long positions in several stocks that saw earnings upgrades (e.g., GR Engineering) and in some cases shorts capitulating (Blackmores and Invocare).

While the Fund has performed well on a relative and absolute basis and we continue to find opportunities for rotation that tick our boxes on cashflow, balance sheet strength and valuation we remain concerned

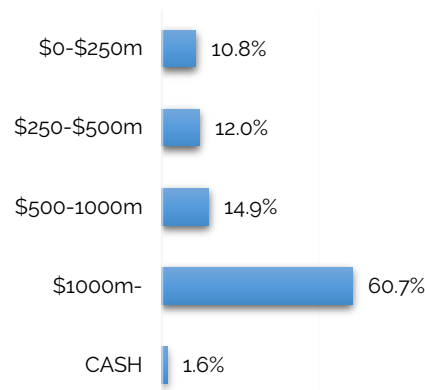
Continued on the next page...

Top 5 Holdings

Company Name	% Portfolio
Blackmores Limited	4.8
Flight Centre Travel	4.2
Adbri Limited	4.0
Iress Limited	3.8
Fletcher Building	3.6
Top 5	20.5

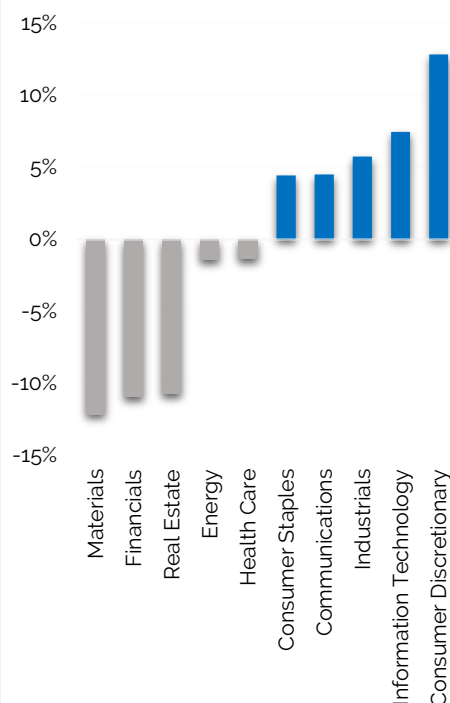
Source: Spheria Asset Management

Market Cap Bands



Source: Spheria Asset Management

Active Sector Exposure



Source: Spheria Asset Management

about speculative excess in certain areas of the market. High momentum names exposed to popular thematic in the battery materials, fintech and biotech names in particular appear to have become completely detached from any semblance of intrinsic value. We will continue to avoid these names and instead focus our attention on the quiet achievers that generate solid cashflows at decent valuations and are being ignored by the crowd. We believe the market remains conducive to elevated levels of M&A activity that have historically buoyed our returns given our preference for undervalued, cash generative businesses with underleveraged balance sheets sees our portfolio companies being the target of this activity more commonly than the average index constituent.

Major Contributors for the Month

Blackmores (BKL.ASX) was the largest contributor as the stock soared 37% on the back of a much-improved result from last year's depressed base and the confident issuance of outer year (FY24) revenue and margin targets. While Blackmores looks expensive optically on near term earnings, we like the new management's strategic initiatives to take costs out of the business and simultaneously grow topline sales and see good prospects for such growth in South-East Asia and pet care products in particular.

GR Engineering (GNG.ASX) was the next largest contributor as the specialist Engineering, Procurement and Construction contractor of mineral processing plants delivered a result above expectations and provided outlook commentary that saw solid upgrades to consensus. With a solidly net cash balance sheet and a mid-single digit EBIT multiple we still see upside in the name given strong tailwinds in its clients' commodity exposures and its excellent record of delivering processing plants on time and on budget.

Class (CL1.ASX) contributed after delivering a marginally better than expected result that saw it return 16% after it had badly lagged the market since delivering an inline 1H21 result. We still see the specialist provider of cloud-based accounting, investment reporting, document and corporate compliance software as well placed to deliver double digit earnings growth and continue to believe it screens well compared to other software exposures.

Major Detractors for the Month

Pilbara Minerals (PLS.ASX - Not owned) was the largest detractor as the stock rose another 26% over the month as the benchmark lithium carbonate price in China rallied 32% over the same period. The stock had already run hard previously however with the cumulative stock return over 80% since end May while the lithium price is up 38% cumulatively. Trading at more than 10x NTA for a producer that has shown itself to be well outside the bottom quartile of cost producers (retained earnings are negative \$254m post the last commodity cycle) we feel the stock has gotten well ahead of the fundamentals, particularly in light of an obvious and very large industry supply response. Interestingly we note that fellow lithium producer Mineral Resources (MIN.ASX) sold its entire 5.4% holding in PLS.ASX in early September.

Adbri (ABC.ASX) detracted upon returning a modest -3% in a market that was strongly up for the month. The producer of cement, lime, concrete and aggregates reported a solid result but flagged somewhat weaker than expected near term conditions driven by COVID-19 induced delays in East Coast construction and a slower than expected uptick in infrastructure demand. We remain constructive (pardon the pun) on the name as we continue to believe the market is not giving it credit for the likelihood that it replaces lost lime revenue and earnings with new Western Australian mining project clients.

Vita Group (VTG.ASX) detracted from performance as it returned -10% over the month after reporting a tough 2H21 result driven by COVID-19 social distancing restrictions. Vita has succeeded historically due to exceptionally strong sales skills making its consultants better able to drive profitability from stores than other Telstra store franchisees. The social distancing restrictions in place and lower mall traffic is impacting on Vita's ability to upsell customers into better margin products and services. The market may also have been disappointed that the group was not able to finalise the sale of its franchised business back to Telstra by result date in-line with Telstra's stated intention. We

Continued on the next page...

continue to see Vita as undervalued given its ownership of an emerging skin health clinic business (Artisan) with \$30m of annualised sales, \$31m in net cash, \$75m in franking credits and a Telstra franchised business that we believe is worth well more than the implied valuation derived from the current market capitalisation.

Outlook & Strategy

While we never seriously doubted that humanity would find a way through the challenges of COVID-19 we are even more firmly of the view that the Australian economy will see out the delta outbreaks in New South Wales and Victoria with vaccination rates rising rapidly and the international experience suggesting that the current crop of vaccines are sufficient to keep morbidity at acceptable levels (even if booster doses like those being rolled out in Israel are eventually required). Our philosophy of buying cash generative business models, with solid balance sheets and returns and sensible valuations remains unchanged despite the challenges of managing money against a benchmark increasingly driven by retail, quantitative and index investors. We feel conditions remain conducive to high levels of corporate activity given plentiful liquidity, procyclical boards and record levels of private equity dry powder. We believe this will continue to present a tailwind for our returns given our predilection for undervalued, cash generative businesses with modestly or underleveraged balance sheets. We will continue to avoid names trading well above their intrinsic value and stick with our disciplined investment approach that is driven by valuation fundamentals.

	Spheria Australian Smaller Companies Fund	Platform availability
Benchmark (universe)	S&P/ASX Small Ordinaries Accumulation Index	ASGARD
Investment objective	The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.	BT Panorama
Investing universe	Primarily listed companies outside the top 100 ASX listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation	BT Wrap
Distributions	Half yearly	First Wrap
Fees	1.10% p.a. management fee & 20% performance fee of the Fund's excess return versus its benchmark, net of the management fee.	HUB24
Cash	<ul style="list-style-type: none"> Up to 20% cash Typically 5% - 10% 	IOOF Portfolio Service
Expected turnover	30-40%	Macquarie Wrap
Style	Long only	mFund
APIR	WHT0008AU	MLC Wrap / Navigator
Minimum Investment	\$25,000	Netwealth
		One Vue
		uXchange

This communication is prepared by Spheria Asset Management Pty Limited (ABN 42 611 081 326, Corporate Authorised Representative No. 1240979) ('Spheria') as the investment manager of the Spheria Australian Smaller Companies Fund (ARSN 117 083 762) (the 'Fund'). Pinnacle Fund Services Limited ABN 29 082 494 362 AFSL 238371 ('PFSL') is the product issuer of the Funds. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') ABN 22 100 325 184. The Product Disclosure Statement ('PDS') of the Fund is available at <https://spheria.com.au/funds/>. Any potential investor should consider the PDS before deciding whether to acquire, or continue to hold units in, the Fund.

This communication is for general information only. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is for illustrative purposes only and is not indicative of future performance. Unless otherwise specified, all amounts are in Australian Dollars (AUD).

Whilst Spheria, PFSL and Pinnacle believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Spheria, PFSL and Pinnacle disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication.

Any opinions and forecasts reflect the judgment and assumptions of Spheria and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future. Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Spheria. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.

This may contain the trade names or trademarks of various third parties, and if so, any such use is solely for illustrative purposes only. All product and company names are trademarks™ or registered® trademarks of their respective holders. Use of them does not imply any affiliation with, endorsement by, or association of any kind between them and Spheria.